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ABSTRACT

A report on a bill to establish an endowment program for developing institutions is presented. The bill, the Challenge Grant Amendments of 1983, would amend the Higher Education Act of 1965, Title III, Part C, in order to: (1) encourage the development of endowment funds by developing institutions, (2) provide additional incentives to promote institutional fund-raising activities, and (3) foster increased independence and self-sufficiency of the institutions. The endowment to any such institution in any fiscal year would not exceed $200,000 and would not be less than $50,000. Stipulations for the use of such grants, selection criteria, and the application for challenge grants are addressed, along with a Congressional Budget Office cost estimate, the legislative history of the bill, and a section-by-section analysis of the bill. It is suggested that providing matching federal funds is important to assuring the continuation of a viable pluralistic higher education system and that Title III institutions present an opportunity for federal involvement and demonstrated need. (SW)

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98TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 98–76

ED235726

CHALLENGE GRANT AMENDMENTS OF 1983

APRIL 28, 1983.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. PERKINS, from the Committee on Education and Labor, submitted the following

REPORT

[To accompany H.R. 2144]
[Including cost estimate of the Congressional Budget Office]

The Committee on Education and Labor, to whom was referred the bill (H.R. 2144) to amend part C of title III of the Higher Education Act of 1965 to establish an endowment program for developing institutions, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment strikes out all after the enacting clause of the bill and inserts a new text which appears in italic type in the reported bill.

INTRODUCTION

The Subcommittee on Postsecondary Education began exploring the status of college endowments almost 1 year ago. In response to an inquiry in the chairman's March 15, 1982, Higher Education Newsletter, a number of colleges reported on the financial status of their endowments:

College	*Amount (in millions)*
Hood College, Frederick, Md	$10.2
Mercer University, Macon, Ga	23.1
Dennison University, Granville, Ohio	19.7
Baptist College, Charleston, S.C	*.15
Grand Valley State Colleges, Allendale, Mich	3.0
Smith College, Northampton, Mass	33.1
College of the Virgin Islands, Charlotte Amalie, St. Thomas, V.I	3.0
Kansas Wesleyan, Saline, Kans	1.3
Virginia Western Community College, Roanoke, Va	.25
Findlay College, Findlay, Ohio	2.38
Wofford College, Spartanburg, S.C	6.0
Ashland College, Ashland, Ohio	2.8
Stetson University, Deland, Fla	7.0
Rockhurst College, Kansas City, Mo	6.269
Woodbury University, Los Angeles, Calif	1.5
University of Rochester, Rochester, N.Y	308.7

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North Central College, Naperville, Ill	8.3
Anderson College, Anderson, S.C	1.2
Howard University, Washington, D.C	10.0
Spring Arbor College, Spring Arbor, Mich	1.5
Brandeis University, Waltham, Mass	*5.4

*Endowment income.

These responses, from an admittedly unscientific sample, demonstrates the wide disparity in institutional endowments and illustrate the pervasive problems facing smaller private and public post-secondary institutions. Eureka College in Illinois, President Reagan's alma mater, has a $2 to $3 million endowment, as does St. Augustine's College in Raleigh, N.C. These figures highlight the precarious position of these institutions in a period of rising costs and reduced Federal student aid. During the 1981–82 school year tuition rose 13 percent for private schools and 14 percent for public higher education institutions. In the 1982–83 academic year, these increases were 15 percent and 16 percent respectively.

While the overall endowment picture of institutional endowments is not good, the problems facing the smaller private institutions are especially critical. During the decade of the 1970's, 162 institutions ceased to operate. Lack of a permanent endowment is often cited as the single most important factor in assuring stability and strength in economic hard times.

Providing matching Federal funds may be the single most important contribution to assuring the continuation of a viable pluralistic system of higher education. Title III institutions present a clear opportunity for Federal involvement and demonstrated need.

Need for This Legislation

Higher education has reached a critical stage in its development. Following a period of unparalleled expansion in the 1960's, contraction and closure have stalked the small, private colleges throughout the 1970's. Individual institutions and the higher education community must move to implement a plan to rescue these threatened institutions from bankruptcy in the face of the escalating cost of providing a quality higher education. In the forefront of developing and implementing such a plan is the United Negro College Fund (UNCF). The fund is a consortium of 42 private, historically black, colleges and universities. UNCF executive director, Christopher Edley, told the subcommittee last year:

> * * * Endowment income provides 2 percent or less of the revenues at three-quarters of our member colleges in the year 1979–80. UNCF colleges 1979–80 endowments of $3,000 per student were only 50 percent of the national average of $6,000. Almost half of the UNCF colleges have total endowments of under $1 million, and many are in the $25,000 to $100,000 nominal category. * * *

The United Negro College Fund has already proved the validity of marrying institutional and corporate efforts to build institutional endowments. UNCF's college endowment funding plan, an innovative financing plan—combines funds lent at low interest by isurance com-

panies with gift funds to produce a 25-year investment package—which provides current operating income and generates an endowment. Since 1978, the life and health insurance industry has pledged more than $17 million, while the colleges have contributed $13 million in gift moneys. It is estimated that over 25 years that $30 million will generate $80 million for endowments and $33 million for operating expenses. That represents a 90-percent increase in institutional endowments in 25 years.

The historically black colleges and universities are not alone in the quest for a financial "safety net." Martha Church, president of Hood College, told the subcommittee on April 22, 1982:

> * * * It is evident to me that Hood is atypical of most colleges and universities of the United States in that it has a modest endowment of approximately $10 million. Among the 3,000 or so colleges and universities in the United States, there are perhaps 100 to 125 that have substantial endowments, and I would say that would be something over $25 million. I checked that with Mr. Keane.. Even these funds are being seriously eroded by inflation. I wish Hood were among those institutions suffering that problem. We are not. We have approximately, by market value, a little over $10 million; $2.5 million of those funds are in a special restricted account where both the investment and the use of the moneys are prescribed by the nature of the gift we have received, so it leaves us a small portion to look at and to invest as wisely as possible.

Although the administration has not endorsed H.R. 2144, the Department of Education has recognized the benefits to title III institutions that endowment support would bring:

> * * * it is probably fair to say that, as a group, title III institutions have smaller endowments per student than other institutions of higher education. An argument can be made that the establishment of endowments at title III institutions would be a promising solution to the problems that threaten their ability to survive and have historically inhibited them from 'becoming viable thriving institutions of higher education.'

The lack of or miniscule nature of endowment at title III institutions is best understood by reviewing the data generated by a comparative performance study of the National Association of College and University Business Officers (NACUBO). According to the 1982 survey of 194 participating institutions, the 194 participant institutions have endowment and life income funds of approximately $17.5 billion, or more than 75 percent of the total endowment funds of all colleges and universities. This means that the remainder of the post-secondary institutions are sharing $4 billion.

The problems facing title III institutions are not decidedly different from those facing larger more fiscally sound institutions. The problems are the same—rising costs, declining enrollments and limited resources—however, the ability of these institutions to respond to these crises is severely limited by their financial resources. A $2 to $3 million endowment or a similar amount of money is inadequate given the problems facing these types of institutions over the next 15 to 20 years.

Last year, the Department returned $1.3 million to the Treasury from the amount Congress appropriated for challenge grants. If H.R. 2144 had been law at that time, we could already be on our way with this important program. If this use of challenge grant funds proves successful, we may consider, during reauthorization of the Higher Education Act, using all challenge grant funds for endowment building purposes. This use of challenge grant funds will contribute to the fulfillment of the purpose of title III to:

> * * * enable them to become viable, thriving institutions of higher education and

and to assist

> * * * them in solving their problems and in stabilizing their management and fiscal operations.

Legislative History

On March 16, 1983, Mr. Simon introduced H.R. 2144, which amends title II, part C (challenge grants) of the Higher Education Act. The introduction of the bill followed discussions with the Secretary of Education and Department of Education officials regarding the feasibility and advisability of expanding the challenge grant section of the law to include endowment building.

During the 97th Congress, a hearing was held on April 22, 1982, to explore the overall status of college endowments. A second hearing was held on March 24, 1983, to provide the Department and the higher education community an opportunity to comment on H.R. 2144 and make suggestions for improving the bill.

Following the hearing, the Subcommittee on Postsecondary Education marked up the bill and ordered it reported to the full committee on April 13, 1983, the Committee on Education and Labor met and with a quorum present, unanimously voted to report H.R. 2144, after adopting several amendments which would:

Establish criteria for prioritizing challenge grant applications and evaluating grant proposals;

Provide a definition of "endowment" for purposes of title IV; and

Set forth several specific purposes for the new endowment provision.

The committee bill has incorporated every suggestion recommended by the Department of Education. On April 12, 1983, the Secretary wrote Representative John Erlenborn, ranking Republican member of the committee, expressing his support for "* * * the concept of endowment building * * *," but suggesting that more review is needed. The Department has had more than 8 months to review the concept. In addition, the idea itself is not new—having been discussed during the last Higher Education Act reauthorization and during the 1972 reauthorization of the act. Finally, a copy of the draft legislation was provided to departmental personnel in December 1982. The committee stands ready to work with the Department on ways to improve the legislation.

Inflationary Impact Statement

Pursuant to clause 2(1)(4), rule XI of the Rules of the House of Representatives, the committee estimates that the enactment of H.R. 2144 will have little inflationary impact on prices and costs in the operation of the national economy. It is the judgment of the committee that the inflationary impact of this legislation as a component of the total Federal budget is negligible.

Oversight Findings and Recommendations of the Committee on Education and Labor

In compliance with clause 2(1)(3)(A) of rule XI of the Rules of the House of Representatives, this report embodies the findings and recommendations of the Subcommittee on Postsecondary Education, established pursuant to clause 2(b)(1) of rule X of the House of Representatives and rule 18 (a) of the Rules of the Committee on Education and Labor.

Oversight Findings and Recommendations of the Committee on Government Operation

In compliance with clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, the committee states that no findings or recommendations of the Committee on Government Operations were submitted to the committee with reference to the subject matter specifically addressed by H.R. 2144.

Section-by-Section Analysis

The short title is the challenge grant amendments of 1983.

Section 2 amends part C of title III of the Higher Education Act of 1965 by adding a new authorized activity or use for challenge grant funds. In addition to using Federal and matching funds to carry out activities under parts A and B, part C funds could be used to assist eligible title III institutions build or maintain endowments.

A new section 332 is created in the act which establishes a 20 percent limit on the use of part C funds for endowment purposes; places a $200,000 ceiling and a $50,000 floor on endowment grants; and restricts eligible institutions to a 2-year grant in any one 5-year period; subsection (b) makes specific provision regarding fiscal maintenance and management of the Federal funds and the matching grant from private or public sources. Section 332 also requires a minimum $50,000 capital contribution by the eligible institution from private or public sources and that certain audit requirements be met. Subsection (c) permits institutional use of interest on the endowment to be used "* * * to defray any expenses necessary to the operation of such colleges * * *" including such things as maintenance, construction and renovation, student services, etc. Subsection (d) establishes criteria for the Secretary to use in selecting grantees among the eligible, high priority institutions. Subsection (e) permits withdrawal of deposited interest to defray expenses "* * * necessary to the operation of the college." Subsection (f) defines the term endowment.

Section 3 would increase the current title III fiscal year 1984 authorization from $129,600,000 to $134,400,000, the same amount recommended by both the Committee and the President.

COST ESTIMATE

The Congressional Budget Office has provided the following estimates of the costs which will be involved in implementing this legislation. The committee concurs in these estimates and adopts them in compliance with clause 7 of rule XIII. No cost estimates have been received from any other Federal departments or agencies.

The Congressional Budget Office letter follows:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., April 20, 1983.

Hon. CARL D. PERKINS,
Chairman, Committee on Education and Labor, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for H.R. 2144, the Challenge Grant Amendments of 1983, as ordered reported by the House Education and Labor Committee, April 13, 1983.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

JAMES BLUM
(For Alice M. Rivlin, Director).

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

APRIL 20, 1983.

1. Bill number: H.R. 2144.
2. Bill title: Challenge Grant Amendments of 1983.
3. Bill status: As ordered reported by the House Education and Labor Committee, April 13, 1983.
4. Bill purpose: The purpose of this bill is to increase the 1984 authorization for grants to developing institutions in order to establish a program of making endowment grants to those institutions. This bill is subject to subsequent appropriations action.
5. Estimated cost to the Federal Government:

	Millions
Grants to developing institutions:	
Authorization level:	
Fiscal year:	
1984	$4.8
1985	-----
1986	-----
1987	-----
1988	-----
Estimated outlays:	
Fiscal year:	
1984	4.8
1985	-----
1986	-----
1987	-----
1988	-----

The costs of this bill fall within function 500.

Basis of Estimate.—The estimate assumes full appropriation of the amounts authorized by the bill. The grants to developing institutions are currently authorized through 1984 at $129.6 million. This bill would increase that 1984 level by $4.8 million. Outlays are estimated to be 100 percent since the funds would be transferred to schools to establish endowment funds.

6. Estimated cost to State and local governments: The Congressional Budget Office has determined that the budgets of State and local government would not be affected directly by the enactment of this bill.

7. Estimated comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: Deborah Kalceivic (226–2820).

10. Estimate approved by:

C. G. NUCHOLS
(For James L. Blum,
Assistant Director for Budget Analysis).

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

HIGHER EDUCATION ACT OF 1965

* * * * * * *

TITLE III—INSTITUTIONAL AID

* * * * * * *

PART C—CHALLENGE GRANTS FOR INSTITUTIONS ELIGIBLE FOR ASSISTANCE UNDER PART A OR PART B

ESTABLISHMENT OF CHALLENGE GRANT PROGRAM

SEC. 331. (a) * * *

(b) The Secretary may make a grant under this section for a period of not more than 5 years. A grant under this section may be used for the programs and activities described in part A or part B, [as the case may be] *or to assist in the establishment or improvement of an institutional endowment in accordance with section 332.*

* * * * * * *

ESTABLISHMENT OF ENDOWMENT PROGRAM: PROGRAM AGREEMENTS

SEC. 332. (a) It is the purpose of this section to establish a program to provide matching endowment grants to eligible institutions in order to (1) encourage the development of endowment funds by such institutions, (2) provide additional incentives to promote fund-raising activities by such institutions, and (3) foster increased independence and self-sufficiency of such institutions.

(b) From not more than 20 percent of the amount appropriated pursuant to section 347(a)(2), the Secretary shall establish a program of making endowment grants to institutions which establish eligibility under section 331(a)(1) (A) and (B) and which are current or past recipients of assistance under this title. No college shall be ineligible for such a grant for a fiscal year by reason of the receipt of such a grant for a preceding fiscal year, but no such college shall be eligible to receive such a grant for more than two fiscal years out of any period of five consecutive fiscal years. The endowment grant to any such institution in any fiscal year shall not exceed $200,000 and shall not be less than $50,000.

(c) No grant for the establishment of an endowment fund by an eligible institution shall be made unless such college enters into an agreement with the Secretary which—

(1) provides for the establishment and maintenance of a trust fund at a federally insured banking or savings institution;

(2) provides for the deposit in such trust fund of—

(A) any Federal capital contributions made from funds appropriated under section 347(a)(2);

(B) a capital contribution by such college in an amount equal to the amount of each Federal capital contribution; and

(C) any earnings of the funds so deposited;

(3) provides that such funds will be deposited in such a manner as to insure the accumulation of interest thereon at a rate not less than that generally available for similar funds deposited at the same banking or savings institution for the same period or periods of time;

(4) provides that, if at any time such college withdraws any capital contribution made by that college, an equal amount of Federal capital contributions shall be withdrawn and returned to the Secretary for reallocation to other colleges;

(5) provides that no part of the net earnings of such trust fund will inure to the benefit of any private person;

(6) provides a minimum $50,000 capital contribution by each eligible institution; and

(7) includes such other provisions as may be necessary to protect the financial interest of the United States and promote the purpose of this title and as are agreed to by the Secretary and the college, including (A) a description of recordkeeping procedures for the expenditure of accumulated interest which will allow the Secretary to audit and monitor programs and activities conducted with such interest, and (B) provisions to ensure that the institution does not meet the requirements of paragraph (2)(B) merely by diverting funds from already available sources.

(d) In selecting eligible institutions for receipt of a grant under this section for any fiscal year, the Secretary evaluate such institutions in accordance with the following criteria:

(1) Priority shall be given to current recipients of grants under part A or B of this title, and the Secretary shall consider the extent to which the institution demonstrates a relationship between the uses of the proceeds of the endowment and fulfillment of its institutional development plan under part A or B.

(2) The Secretary shall determine the institution's need for such a grant on the basis of the current value of the institution's endowment in relation to the number of full-time equivalent students at such institution.

(3) The Secretary shall consider the effort made by the institution in its own behalf on the basis of the institution's on-going effort to build or maintain its endowment.

(4) The Secretary shall give preference to grant applications utilizing nongovernment funds for matching purposes.

(e) Interest deposited pursuant to subsection (c)(2)(C) in the trust fund of any eligible institution may be periodically withdrawn and used, at the discretion of such college, to defray any expenses necessary to the operation of such college, including expense of operations and maintenance, administration, academic and support personnel, construction and renovation, community and student services programs, and technical assistance.

(f) For the purposes of this section, the term "endowment" means any fund or foundation established by an institution of higher education or by State law, which is exempt from taxation and is maintained for educational or related charitable purposes, and specifically includes separate foundations established in order to assist public institutions to develop or increase institutional endowments, but does not include real estate.

APPLICATIONS FOR CHALLENGE GRANTS

SEC. [332.] *333.* (a) Any institution eligible for a challenge grant under section 331(a) may apply for such a grant under section 341, except that the application for the purpose of this part shall—

(1) provide evidence that funds are available to the applicant to match funds that the Secretary is requested to make available to the institution as a challenge grant;

(2) in the case of an application by a public institution, contain the recommendations of an appropriate State agency responsible for higher education in the State, or provide evidence that the institution requested the State agency to comment but the State agency failed to comment; and

(3) in the case of an application by an institution described under section 331(a)(1)(B), demonstrate how challenge grant funds will be used to eradicate the conditions enumerated in section 322(b)(1) through (11), and lead to greater financial independence.

(b) Not later than April 1 of the fiscal year preceding the fiscal year in which any grant is to be made under this part, the Secretary shall determine which institutions will receive challenge grants under this part and notify the institutions of the amount of the grant.

(c) In approving applications for grants under this part, preference shall be given to institutions which are receiving, or have received, grants under part A or part B.

* * * * * * *

SECTION 516 OF THE OMNIBUS EDUCATION RECONCILIATION ACT OF 1981

HIGHER EDUCATION ACT OF 1965

SEC. 516. (a) * * *

* * * * * * *

(c)(1) The total amount of appropriations to carry out title III of the Higher Education Act of 1965 shall not exceed $129,600,000 for each of the fiscal years [1982, 1983, and 1984] *1982 and 1983 and $134,400,000 for fiscal year 1984.*

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